

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE EFFECTS OF THE FEDERAL TAX	)	
REFORM ACT OF 1986 ON THE RATES OF	)	CASE NO. 9779
KENTUCKY POWER COMPANY	)	

O R D E R

IT IS ORDERED that Kentucky Power Company ("Kentucky Power") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. The information requested herein is due no later than March 27, 1987. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is

necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

Information Request No. 1

1. In response to the Commission's Order of December 11, 1986, responding utilities have made numerous adjustments to reflect the affects on revenue requirements of increases and decreases in tax expense resulting from the 1986 Tax Reform Act. In order to allow every utility the same opportunity to address the numerous elements contained in the various filings the following list of issues is provided. The effects of Items (1), (2) and (3) shall be addressed by all utilities. The effects of Items (4) through (20) should be addressed by each utility as applicable. For each item below, provide the dollar amount for each adjustment or, for items omitted, an explanation as to why the information is not being supplied. Include a detailed explanation and workpapers of how each amount was determined and a reconciliation of the sum of these adjustments to the total amount of revenue requirement affect included in the original application.

- (1) Federal tax rate change - 46 to 34 percent.
- (2) Amortization of excess deferred taxes.
  - (a) Depreciation related.
  - (b) Non-depreciation related.
- (3) Unbilled revenues.
- (4) Alternative minimum tax.
- (5) Kentucky income taxes.
- (6) Investment tax credits.
- (7) Capitalized overheads.

- (8) Capitalized interest.
- (9) Depreciation.
- (10) Vacation pay.
- (11) ESOP.
- (12) Pension expense.
- (13) Uncollectible accounts and bad debt reserve.
- (14) Provision for 80 percent of certain business expense deductions.
- (15) Contributions in aid of construction.
- (16) Customer advances for construction.
- (17) Super fund taxes.
- (18) PGAs.
- (19) Cash flow.
- (20) Payroll taxes.

2. Provide any comments you deem appropriate as to the procedure of adjusting rates effective July 1, 1987, to reflect the change in revenue requirements based on the lowering of the top corporate rate to 34 percent.

3. Preliminary calculations indicate that the excess accumulated deferred federal income taxes of \$2,597,404 and \$5,194,807 shown in Columns 7 and 10 on Exhibit ELB-2, page 1, are being amortized over a 25-year period that results in a tax reduction of \$103,896 and \$207,792 as shown on Line 4 of Exhibit ELB-1, page 1.

a. If the above statement is correct, provide the basis for the amortization period.

b. If the above statement is incorrect, provide support for the excess deferred FIT on ELB-1 and show where the effect of the accumulated deferred FIT on ELB-2 is reflected.

4. On page 4 of the testimony of Edward L. Berginnis, the decrease in current and deferred income taxes is listed as \$996,980 and \$1,472,391, respectively. Please provide a summary of the adjustments making up these amounts in the following format:

	<u>Current Taxes</u>	<u>Deferred Taxes</u>
Tax Rate Change		
Investment Tax Credit		
Depreciation		
Capitalized Overheads		
Capitalized Interest		
Unbilled Revenues		
Contributions in Aid of Construction		
Bad Debt Reserve		
Pensions		
Accrued Vacation		
Superfund Tax		
Other (Specify)		
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TOTAL	\$	\$

5. Based on the test year revenue and expense levels, provide the cash flow decrease for 1987 if the tax reduction is flowed through.

6. Provide the amount of excess deferred income taxes arising from the use of accelerated tax depreciation. Include supporting workpapers.

7. Where applicable, provide the information in items 1 through 6 above at both the 40 and 34 percent tax rates.

Done at Frankfort, Kentucky, this 13th day of March, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Loman, Jr.  
For the Commission

ATTEST:

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Executive Director